

**Testimony of Deputy U.S. Trade Representative Karan Bhatia**

**House Ways and Means Trade Subcommittee**

**“U.S. – Korea Free Trade Negotiations”**

**March 20, 2007**

**Introduction**

Chairman Levin, Ranking Member Herger and distinguished committee members, I am delighted to be able to join you today to discuss our Free Trade Agreement (FTA) negotiations with South Korea.

It has been a little more than a year since FTA negotiations were launched – here on Capitol Hill – with strong bipartisan support. Today, 13 months later, we are nearing the end of the negotiating process. While a number of critical issues remain outstanding, it is our hope that those issues can be resolved and, by the end of this month, we will be in a position to notify Congress of our intent to sign the Korea-United States (“KORUS”) Free Trade Agreement.

**Background on Korea**

First, a word of background about South Korea and the extraordinary changes that country has witnessed over the past four decades. Forty years ago, Korea was among the poorest countries in Asia, possessing a largely agricultural economy and per capita GDP barely over \$100. It ranked as the world’s 46<sup>th</sup> largest import market. Politically, from the period following the Korean War until the late 1980s, Korea was ruled by a string of authoritarian governments.

Today, after an extraordinary period of economic growth, Korea is the world’s 11<sup>th</sup> largest national economy, with \$1 trillion GDP. Its economy is diversified and dynamic and has grown at an average rate of 4.6 percent over the past six years. With a population of nearly 49 million people, per capita GDP last year exceeded \$24,000. South Korea is today the world’s 11<sup>th</sup> largest import market, the United States’ seventh largest trading partner, and our seventh largest export market. While Korea had a bilateral trade goods surplus of \$13.4 billion and services trade deficit of \$4 billion with the United States last year, it is also one of our faster growing major trading partners, with U.S. goods imports from Korea growing by 4.6 percent last year, and U.S. goods exports to Korea growing by almost 17 percent. It may also be worth noting that the United States has fallen from Korea’s largest trading partner three years ago to its third largest partner today.

Korea today enjoys a vigorous multiparty democracy, strong public participation in its political system, strong labor unions, and an independent judiciary. While the transition to democracy has, in some ways, tested the U.S.-Korea political and strategic partnership, our alliance with Korea remains strong. Today, the U.S. and South Korea enjoy a close military relationship, have been strong partners in the war on terrorism, and have been working closely together to promote a safe and secure Korean Peninsula and Northeast Asia.

## **Benefits of KORUS FTA**

Against that backdrop, let me briefly outline the benefits that the United States potentially stands to reap from a high-quality, comprehensive FTA with South Korea.

From an economic perspective, the U.S.-Korea FTA offers us an opportunity to grow our already significant bilateral trade and investment relationship. Just to place that relationship in perspective, the \$78 billion in bilateral goods trade we currently have with Korea is more than 70 percent of the total bilateral trade that we enjoy with all 10 trading partners with whom we have implemented FTAs since 2000 (\$110 billion). Annual U.S. exports to Korea are more than double the \$35 billion in exports to our six CAFTA/DR partners. And that's the case even though Korea's current average tariff for industrial goods is 7 percent and for agricultural products is 52 percent.

With the greater market access that would accrue under an FTA, U.S. exports can be expected to grow significantly. So too would the benefits reaped by U.S. businesses and consumers with greater access to Korean products. Studies have estimated that the potential income gains to the U.S. economy from a KORUS FTA range from \$17 billion to \$43 billion.

However, the benefits for the United States would go beyond market access. The FTA would also eliminate trade-distorting barriers to investment and increase the protections enjoyed by American investors in Korea, strengthen the intellectual property rights of American innovators, address anti-competitive business conduct, reduce non-tariff barriers, and enhance the transparency of the Korean regulatory system. It would also result in improvements in the regulatory operating environment in Korea, and would establish institutions – ranging from sector-specific government-to-government committees to formal dispute settlement mechanisms – to head off and deal with problems that might arise in the future.

By establishing a stronger economic relationship, a KORUS FTA would also broaden and modernize our strategic alliance with Korea. It will help ensure that the U.S. partnership with Korea – which has been centered on defense ties for more than half a century -- remains a vital force for stability at a time of change and challenge on the Korean peninsula and in the broader Northeast Asia region.

## **The Importance of the KORUS FTA to the U.S. Position in East Asia**

It bears noting that the KORUS FTA would offer a unique preferential advantage to American companies in the Korean market, at a time when many of our global competitors are actively seeking to “lock-up” East Asia's fast growing economies into economic relationships that exclude the United States and U.S. firms. It is worth reflecting on this trend.

Today, there are 176 free trade agreements in existence in the Asia Pacific region alone, and many more either under negotiation or consideration.

- China already has an FTA with ASEAN that covers goods, and a comprehensive services FTA between the two parties will enter in to force in July. In addition, the Chinese are

actively negotiating or have proposed FTA discussions with, among others, Korea, Japan, India, Australia, New Zealand, the GCC, Pakistan, and the South African Customs Union.

- Japan has concluded FTAs with Singapore, Malaysia and the Philippines, and is considering engagement with the major players within Asia.
- India has implemented FTAs with Thailand, Singapore and Sri Lanka and, as the aforementioned facts indicate, is actively entertaining discussions with the region's larger economies.
- Demonstrating that the interest in establishing trade deals in Asia is not limited to the region itself, the EU is actively courting partners that include China, India and, yes, Korea.
- We are witnessing efforts to construct an exclusive Asia Pacific regional free trade bloc – so-called ASEAN +3 or +6 arrangements.

A number of these FTAs unfortunately do not constitute high standard, comprehensive FTAs of the variety that we have negotiated. However, they do afford preferential trading positions to the companies of these countries, and do have the effect of placing U.S. businesses, workers, and farmers at a relative disadvantage in accessing fast-growing East Asian markets. One potential effect of this web of agreements is to encourage U.S. companies seeking to compete in these markets to relocate production to those countries.

Against this backdrop, the KORUS FTA takes on added significance. To date, the United States has concluded two East Asian FTAs – with Singapore and Australia, important but smaller economies – in this critically important region. A successful FTA with Korea could provide an important boost to U.S. efforts to remain an active economic presence in a strategically vital region that accounted last year for over 37 percent of total world GDP, 26 percent of global trade flows, and 29 percent of U.S. exports. A KORUS FTA would establish a model that we believe could be replicated with other Asian economies, and could help us expand trade liberalization throughout the region.

By contrast, any let up in focus that results in our inability to complete agreements with major emerging-market economies like South Korea could have unfortunate consequences. It would likely result in a shift of the region's attention from strengthening their relationships with the United States to doing deals with other major trading partners.

### **Update on Negotiations**

Let me finally turn briefly to the status of the KORUS negotiations. We have concluded eight rounds of negotiations. I am pleased to report that the most recent round in Seoul resulted in good progress, with successful closing of Competition, Government Procurement and Customs chapters, and important progress in areas including Investment, Market Access, Telecom, overall Services, and Financial Services.

A small group of Korean negotiators is in Washington this week to continue to work towards resolution of the outstanding issues.

To be clear: A final agreement has not been reached. Significant issues remain in a number of chapters. But I believe there is strong commitment on both sides to work hard in the time remaining to conclude on a high-quality, comprehensive, balanced and ultimately successful FTA.

While I would be happy to discuss the elements of a successful FTA in greater detail during the questions and answer period, let me identify just a few up front, including:

- A unique and unprecedented array of strong, enforceable commitments designed to level the playing field for American auto manufacturers seeking to access the Korean market;
- A strong agricultural market access package that affords America's farmers and ranchers greater access to Korea's agricultural markets;
- A strong industrial goods market access package that affords America's manufacturers of consumer and industrial goods greater access to Korea's market;
- A strong investment chapter that contains key protections for American companies seeking to invest in Korea;
- A strong services chapter that ensures American service suppliers can compete in the Korean market on a level playing field in wide range of sectors; and
- Strong chapters on labor and the environment.

### **Conclusion**

The KORUS FTA offers us the opportunity to establish a unique relationship – a partnership – with one of the world's fastest growing and most dynamic economies, while solidifying our competitive presence in Asia. We are working hard in the time remaining to achieve this outcome by concluding a fair, comprehensive and strong agreement that will significantly benefit American workers, farmers, manufacturers, and service providers.

Thank you.